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RESEARCH ARTICLE

How to Get Strategic Planning and Business Model Design Wrong: The Case of a Mobile Technology Provider[1]

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Though successful stories have naturally been catching the attention of academics and practitioners, our study argues that failure cases hold an explanatory and normative value not to underestimate, since they can provide entrepreneurs with precious hints about where *not* to direct their strategic efforts.

Through presenting a noteworthy case of planning failure, the study reveals how treacherous the strategic planning and business model design processes can be, and what dreadful influences planning flaws can have on a firm's performance.

Taking a 'failure analysis perspective,' the major mistakes committed in the planning process are inductively extrapolated from the longitudinal case study performed, and interpreted on the basis of the findings of an extensive literature review, to be presented as a list of 10 pieces of 'anti-advice' with strong theoretical foundations and a straightforward value for entrepreneurs involved in strategic planning and business model design.

The major mistakes a firm's top management can commit when undertaking the strategic planning and business model design process are analyzed to provide an anti-advice manual for entrepreneurs wishing to avoid common strategic pitfalls.

There is much to be said for failure. It is much more interesting than success.
Sir Max Beerbohm (1872–1956)

Introduction

Failure has often been neglected by the strategic management literature. From traditional pieces of work like Collins and Porras's *Built to Last* (1994), to recent studies proposing innovative strategic paradigms like Kim and Mauborgne's *Blue Ocean Strategy* (2005), successful cases have naturally caught the eye of academics and practitioners, the former searching for any underlying theoretical implication, the latter looking for replicable managerial practices to help them in leading their companies towards outstanding performance. The glorious aura springing from success undoubtedly — and reasonably — possesses a strong attractive power.

Nevertheless, as Sir Beerbohm wittily noticed, failure has interesting aspects as well, and holds an explanatory and normative value not to underestimate. Failures can teach many lessons, and shed light on issues seldom addressed or even spotted when the case under scrutiny is blessed with success. Taking a failure analysis perspective, which rigorously describes and analyses unsuccessful events — seeking for the origin of mistakes by looking at the 'how' and 'why' things were done a certain way, not merely at 'what' was ultimately achieved — instead, stimulates a multi-faceted focus on the whole strategic picture, integrating a range of otherwise unmentioned dimensions, and breeding normative guidelines to prevent such mistakes from repeating.

One field that can benefit from such an approach is that of strategic planning and business model design: an insightful analysis of noteworthy failure cases

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showing the major flaws a strategic planning and business model design process may be burdened with can provide researchers and managers with useful indications of where to direct future academic or business efforts, as well as precious hints about where *not* to go.

In the light of this argument, the main purpose of this paper is to identify and analyze the major mistakes a company's top management can commit when undertaking the strategic planning and business model design process. The research focuses on an Italy-based mobile technology provider, a new entrant in the mobile content market, and therefore finding itself in the condition of developing a strategic plan and a business model for the new business area it is going to compete in.

Employing the longitudinal single case study methodology — based on 15 semi-structured interviews carried out at two distinct moments in time, 2006 and 2008 — the research is articulated into two main steps.

As a first stage, the planning and design choices brought to the initial strategic and business model configuration are identified and described; afterwards, the current configuration as derived from the second wave of interviews is displayed, in order to allow a comparison of the two configurations and let some process flaws emerge from the very actions the top management put through to solve them. As a second stage, a list of 10 mistakes the company's top management made in the process is extrapolated inductively from the case, and discussed on the basis of conclusions drawn from a wide review of existing literature on strategic planning and business model design. In conclusion, inferences will be made concerning the paper's cross-value for the research issues considered.

An overview of the strategic planning literature

Strategic planning can be defined as the broad process encompassing the strategic activities of setting objectives, generating strategies, evaluating strategies, monitoring results, and obtaining commitment (Armstrong, 1982). Lorange (1980), in addition to the previously mentioned phases, also considers the budgeting and linking to managerial incentives activities as key stages of the planning process. In an attempt to dissect the whole process into its elementary parts, Bracker and Pearson (1986) identify eight planning components: objective setting; environmental analysis; strengths, weaknesses, opportunities, and threats (SWOT) analysis; strategy formulation; financial projections; functional budgets; operating performance measurement; and control procedures.

The body of knowledge dealing with strategic planning is understandably wide, and in time, several fundamental questions deserve the attention of researchers in the field. Coherent to the present study's scope, the main issues addressed here are the following: the levels of strategic planning; the formal vs. informal strategy formulation process; the existing relation between strategic planning and firm performance; the balance of internal and external planning focus; and the tools or models to be employed in supporting the planning activity.

The levels of strategic planning

Strategic planning has traditionally been divided into three levels, characterized by different scope and aim (Lorange, 1980; Hill and Jones, 2001): a corporate level, focused on a company's overall business portfolio, whose main task is to develop a resource allocation plan to businesses differing in terms of riskiness and resource absorption; a business level, focused on a single business area, with the aim of improving the company's competitive position, planning future expansions to business niches, and developing complementary business activities; and a functional level, undercurrent to the business level, whose task is to contribute to the strategic success of the business by focusing on the set of strategic variables contained in the domain of a particular functional manager. As can clearly be inferred, the three levels have different implications with reference to strategy formulation and implementation.

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Strategic planning as a formal vs. informal process

Concerning strategic planning as a process, authors have long debated about the role and nature of the underlying set of actions that lead to strategy formulation. Over time, different strategic views or paradigms have been developed: the two dualistic mainstreams on strategic management have traditionally been labeled by scholars as the *rationalist* and the *behavioral* — or *evolutionary* — schools (Grant, 1991; Van der Heijden, 1997; Chermack *et al.*, 2001).

The classic *rationalist* perspective, supported by authors like Ansoff, Chandler, Taylor, and Sloan (Micklethwait and Woolridge, 1997), has its core belief in the claim that strategic planning shall be a formal, rational process, carried out by the top management and a staff of strategic planners, which ultimately delivers a plan that is to be implemented straightforwardly as it is formulated. Such a position is built on strong assumptions, like (almost) perfect predictability of events, clarity of intentions, rationality of planners and executers, as well as full organizational understanding of plans (Mintzberg, 1994a).

However, the previous assumptions' limitations, and the pitfalls several firms experienced when passing from strategy formulation to its implementation, led to a criticism of the rationalist school's tenets. Back in 1976, a study from Harrison pointed out that long-range plans had to be considered as tools to support planning and decision-making, not as blueprints of the firm's future, as accurate long-range forecasting was impossible.

Henry Mintzberg, in his renowned work *The Rise and Fall of Strategic Planning* (1994b), taught strategists an intriguing lesson: strategic planning, far from being the 'one best way' to devise and implement strategies, rested instead on some major fallacies — about the capability of perfect prediction, the plausibility of detaching strategists from the subjects of their strategy-making, and the ability to perfectly formalize the strategy definition process. This argument became the basis of the *behavioral* or *evolutionary* perspective, and served to convey the idea that prediction is seldom accurate, and since in the end no one can perfectly 'stick to the plan,' strategy shall be mainly emergent, ultimately made of a set of informal single management decisions taken in response to external, unpredicted changes.

Strategic planning and firm performance

The existing relationship between strategic planning and firm performance has been a subject of growing interest. Although questions have arisen concerning the metrics and the dimensions of analysis, which make the performance comparison sometimes difficult to carry out and interpret (Shrader *et al.*, 1989), a wide number of empirical studies support the *rationalists'* approach, arguing that a simple positive relationship between formal strategic planning and organizational performance exists, and in most cases planners outperformed non-planners (Wood and LaForge, 1979; Armstrong, 1982; Robinson and Pearce, 1984; Greenley, 1986; Pearce *et al.*, 1987; Bracker *et al.*, 1988; Lindsay and Rue, 1989; Capon *et al.*, 1994; Miller and Cardinal, 1994). Other studies (Clark, 1997; Glaister and Falshaw, 1999; O'Regan and Ghobadian, 2007) found that the use of formal strategic planning tools is quite widespread among small to medium enterprises. Lyles *et al.* (1993) propose that small firms which do more formal planning will also have a more comprehensive strategic decision process and adopt a wider variety of alternative strategies than will non-formal planners, in turn positively affecting their growth and profitability capability. A formal plan can even become the source of competitive advantage in an industry with strategic planning factor market imperfections (Powell, 1992); moreover, it is claimed that deliberate strategic planning can play a variety of important and useful roles peripheral to the strategy development and implementation process (Langley, 1988), and it strongly influences managers' decision processes and strategic change since it affects the set of strategic issues that do capture decision-makers' attention (Dutton and Duncan, 1987). In addition to this,

DOI: 10.1002/jsc

Armstrong (1982), together with Bracker *et al.* (1988), concluded that sophisticated strategic planning benefits small firms in dynamic, high-growth industries where large changes take place.

Many of the previously mentioned studies, however, do not dare to thoroughly exclude the validity of an emergent, informal approach — despite the scarce empirical support it gains. Mintzberg himself came back to the subject, with an article again characterized by a title meant to impress: 'The fall and rise of strategic planning' (1994c). There, he held that the failure of strategic planning could mainly be brought back to a misinterpretation of its role, which lies in providing formal analysis to broad issues rather than discovering the one right answer; acting as catalysts and supporters of managers rather than replacing them; and programming the concrete steps needed to carry out the strategic vision. Therefore, a plan shall not aim at containing all aspects of strategic thinking and constraining strategy-making; still, a plan can be a useful tool to provide the basis for rational analysis and decision-making.

The balance of internal and external planning focus

A key issue strategists should pay fair attention to is that of adequately equilibrating the internal and external analysis effort, as well as the arbitrage of financial capital between internal (equity) and external (debt) resources.

A well-grounded literature suggests that a good strategic planning process driving above-average performance is the result of correct interaction and fit of business management with internal and external environment (Ansoff, 1985; Andrews, 1987; Porter, 1991; Houben *et al.*, 1999). As Ansoff and Sullivan (1993) stated, the profitability of a firm is optimized when its strategic behavior is aligned with its environment; Thwaites and Glaister (1992) reinforced this concept, arguing that to succeed in an industry an organization must select a mode of strategic behavior which matches the levels of environmental turbulence. Furthermore, given the intensification of corporate environmental complexity and the increasing occurrence of radical changes, greater attention shall be devoted to developing and refining the environmental scanning element of the planning system (Ansoff, 1980; Thomas, 1980; Veliyath, 1992; Lozada and Calantone, 1996). Among the highest ranked set of planning support tools/techniques employed by firms, we find the strengths/weaknesses/opportunities/threats (SWOT) analysis and the critical success factors (CSF) identification (Clark, 1997; Glaister and Falshaw, 1999).

Ferrell *et al.* (1998) define SWOT analysis as a model which 'assesses an organization's strengths — what an organization can do — and weaknesses — what an organization cannot do — in addition to opportunities — potential favorable conditions for an organization — and threats — potential unfavorable conditions for an organization.' The role of SWOT analysis is to take the information from the environmental and internal analysis and separate it into internal issues (strengths and weaknesses) and external issues (opportunities and threats), therefore constituting a key element of the strategic planning process (Bracker and Pearson, 1986; Houben *et al.*, 1999). SWOT possesses great value as a strategic management tool, and if used dynamically — emphasizing its process values as well as its output — it can support the planning process (Pickton and Wright, 1998).

Operationally, SWOT analysis is grounded in — and draws from — contemporary strategic management theories and models. The external strategy analysis is often based on Michael Porter's Five Forces model (1980) or its evolutions (Grundy, 2006), further integrated with the Value Network model (Normann and Ramirez, 1994; Gulati *et al.*, 2000; Peppard and Rylander, 2006), which allows us to shed light on a business's structural opportunities and threats. Moreover, concerning the underpinning of a firm's strengths and weaknesses, recent studies (Valentin, 2001) stressed that internal strategy analysis can largely benefit from the perspective brought in by the resource-based view of the firm (Wernerfelt, 1984; Hamel

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and Prahalad, 1990; Barney, 1991; Peteraf, 1993; Teece *et al*., 1997; Barney and Clark, 2007).

CSF is defined by Boynton and Zmud (1988) as 'those few things that must go well to ensure success for a manager and an organization.' The CSF approach is often embraced by managers (Freund, 1988), as it constitutes an important input for many steps of the strategic planning process, such as: environmental analysis; resource analysis; and strategy evaluation (Leidecker and Bruno, 1984; Jenster, 1987).

Another major issue which concerns the balance of internal and external efforts is related to the financial arbitrage between capital sources of different origin. Choices concerning capital structure — that is, the composition of different capital sources, either owners' funds (equity) or liabilities (debt), employed by a firm to finance its assets in the balance sheet — are strictly related to corporate strategic planning (Parsons and Titman, 2007), as the adoption of different levels of debt and equity in the firm's capital structure is claimed to be among the range of those firm-specific strategies used by managers to create competitive advantage (Gleason *et al*., 2000).

The literature dealing with capital structure has its roots in the study of Modigliani and Miller (1958), which concluded that financial arbitrage — that is, changes in capital structure composition — is irrelevant to a firm's value creation ability. In time, however, such literature stream evolved and departed from this first study and its underlying ideal hypotheses of absence of taxation and bankruptcy costs, perfect information and rationality of both managers and investors.

The literature on financial arbitrage has largely developed following three main paths (Kjellman and Hansén, 1995; Flannery and Rangan, 2006): the 'trade-off theories' (Jensen and Meckling, 1976; Myers, 1977; DeAngelo and Masulis, 1980; Jensen, 1986), which dropped the first hypothesis and considered bankruptcy and agency costs; the 'pecking order theories' (Donaldson, 1961; Akerlof, 1970; Myers and Majluf, 1984), which considered the information asymmetry and the adverse selection problems; and the more recent 'market timing theories' (Stein, 1996; Baker and Wurgler, 2002), related to the research on behavioral finance, which assumed a certain level of irrationality in investors' and managers' decisions.

Given the scope of the present study, two main topics relevant to financial capital arbitrage are discussed: the presence of a planned debt-to-equity leverage target and the modality of adjustment towards target; and the determinants of choices on capital structure composition.

The actual presence of an explicit debt-to-equity target leverage, which derives from a financial planning activity performed by top management, has been the object of several studies, which typically concluded that firms usually do have target capital structures (e.g., Vogt, 1994; Kjellman and Hansén, 1995; Gleason *et al*., 2000; Gaud *et al*., 2003; De Haas and Peeters, 2004; Brounen *et al*., 2006; Flannery and Rangan, 2006; Gaud *et al*., 2007); however, those studies focusing on the way such firms adjust their debt-to-equity composition towards target showed scattered results.

Gleason *et al.* (2000) state that identifying and deploying the appropriate mix of debt and equity is amply rewarded in the marketplace because, with other factors held constant, this appropriate mix of debt and equity minimizes a firm's cost of financing. The importance of setting a target-to-debt ratio is also supported by Brounen *et al.* (2006), while Kjellman and Hansén (1995) add that firms seek to maintain a target capital structure in order to maximize firm value, by minimizing the costs of prevailing market imperfections. Investigating the relationship between leverage and competitiveness, Parsons and Titman (2007) also find that high leverage appears to inhibit a firm's ability or willingness to compete aggressively, especially against well-financed competitors. A recent study (Gaud *et al*., 2007) shows that firms limit themselves to an upper barrier to leverage, but not a lower one, and internal financing, when available, is preferred to external financing.

In terms of speed of adjustment, a study by Vogt (1994) argues that firms appear to adjust slowly to long-run

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financial targets; this argument is reinforced by De Haas and Peeters (2004), who claim that because of information asymmetries between firms and banks, firms prefer internal finance over bank debt — following a pecking order behavior — and adjust leverage only slowly. Also, Gaud *et al.* (2003), in their study on Swiss firms, find that such firms do adjust towards a target-to-debt ratio, but the adjustment process is much slower than in most other countries, and they relate this finding to a set of influencing elements belonging to the institutional context.

On the contrary, Flannery and Rangan's (2006) findings indicate that the typical firm closes about one-third of the gap between its actual and its target debt ratios each year. The underlying motives and benefits of adjustment to targets are also investigated. According to Hovakimian *et al.* (2004), dual issuing of both equity and debt allows deviation from the target, resulting from accumulation of earnings and losses, to be offset. O'Brien *et al.* (2007) argue that capital structure swaps — either in the form of equity-for-debt or debt-for-equity swaps — if properly managed, can increase the shareholders' long-term wealth when a firm's debt or equity is mis-valued. Assessing target capital structure adjustment speed before investments, Dudley (2006) finds empirically that growth firms — defined as having a high market-to-book ratio — react to unexpected shocks to their investment opportunity set by first issuing equity to finance initial capital expenditures and then issuing debt to simultaneously finance remaining investment and move leverage back to its target; low market-to-book firms, instead, react to positive changes in their investment opportunity set by issuing debt and increasing leverage — though subsequent reversion in their leverage ratios is also observed. Byoun (2008) suggests that firms move towards the target capital structure when they face a financial deficit/surplus, while Margaritis and Psillaki (2007) investigate the relationship between firm efficiency and leverage, finding that a positive relationship exists between efficiency measured as the distance from the industry's best practice production frontier and leverage.

Debt composition is also a topic of growing importance. The majority of published empirical research concerning capital structure seems to concentrate on the traditional dualism between equity and debt (e.g., Marsh, 1982; Jallilvand and Harris, 1984; Bayless and Chaplinsky, 1990; MacKie-Mason, 1990; Jung *et al.*, 1996; Brounen *et al.*, 2006; Frank and Goyal, 2007; Gaud *et al.*, 2007). However, as Rauh and Sufi (2008) point out, the heterogeneity of debt should not be disregarded, as several different types of debt have emerged over time, and firms are often shown to significantly modify the relative composition of their debt despite its total value only changing slightly.

Another major stream of research focused on the determinants of capital structure and financial arbitrage choices, arguing that they are mainly influenced by a combination of firm characteristics and country characteristics.

Among the firm-specific determinants evidenced by the existing literature, we find: structural characteristics, such as size, age, firm type — private or public — and importance of tangible assets (Gaud *et al.*, 2003; De Haas and Peeters, 2004; Brounen *et al.*, 2006; Frank and Goyal, 2007; De Jong *et al.*, 2008); value-related characteristics, like profitability, cash-flow generation ability, financial distress and competitiveness (Lee, 1995; Shenoy and Koch, 1996; De Haas and Peeters, 2004; Vasiliou and Daskalakis, 2009); and governance characteristics, like corporate governance, organizational practices, and market timing (Kjellman and Hansén, 1995; Bertrand and Schoar, 2003; Gaud *et al.*, 2007). Within this latter category, interesting studies emerged which investigate the impact of managerial traits on corporate financial policy and firm value (Hackbarth, 2008), inferring that managers' culture, beliefs, background, and personality traits introduce a bias that influences financial decisions (Hofstede, 1980; Bertrand and Schoar, 2003).

The capital structure puzzle is also determined by country-specific factors (e.g., Demirguc-Kunt and Maksimovic, 1999; Booth *et al.*, 2001; Claessens *et al.*, 2001;

DOI: 10.1002/jsc

Bancel and Mittoo, 2004), both in a direct and in an indirect way, through their influence on firm-specific determinants (De Jong *et al.*, 2008). Such country-wise elements are often referred to as 'culture,' which encompasses the legal environment, the tax environment, the economic system — influencing bankruptcy cost — and the technological capabilities at a country level (Harris and Raviv, 1991). Still, the empirical results on the influence of cultural factors on arbitrage choices and corporate debt ratios are contradictory: while Brounen *et al.* (2006) conclude the importance of such determinants and Korajczyk and Levy (2003) find a cyclical relationship between target leverage and macroeconomic conditions, Gleason *et al.* (2000) and Vasiliou and Daskalakis (2009) infer that differences in institutional characteristics do not seem to affect the way of thinking of financial managers when they decide on capital structure.

An overview of the business model design literature

The concept of a business model generally refers to the 'architecture of a business,' or the way firms structure their activities in order to create and capture value (Timmers, 1998; Rappa, 2001; Weill and Vitale, 2001). As Teece (2009) recently put it, the essence of a business model lies in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit.

As a literature stream, business model design has evolved from a piecemeal approach that looked for the single identification of typologies or taxonomies of models (Tapscott *et al.*, 2000; Amit and Zott, 2001; Rappa, 2001; Weill and Vitale, 2001), to one searching for the development of a clear and unambiguous ontology — that is, the definition of the basic concepts of a theory (Osterwalder, 2004), which can be employed as a generalized tool for supporting strategy analysis of firms. In parallel, a business model has become an extensive and dynamic concept, as its focus has shifted from the single firm to the network of firms, and from the sole firm's positioning within the network to its entire interrelations and hierarchies (Ballon, 2007).

What is widely accepted in the literature is that a business model shall be analyzed through a multi-category approach, as a combination of multiple design dimension, elements, or building blocks. However, the proposed dimensions and interrelations are quite diverse, and the existing body of knowledge shows a lack of homogeneity (Johnson *et al.*, 2008).

Noteworthy attempts to provide a unified and consistent framework can be found in several works. Yu (2001) mentions different critical business model components, such as assets, markets, customers, competitors, products, services, costs, prices, revenues, profits, market shares, economic scales, marketing strategies, and competitive advantages. According to Hedman and Kalling (2003), the conceptual business model should include elements such as customers and competitors, the offering, activities and organization, resources and factor market interactions. Osterwalder (2004), in his proposed business model design template, identifies four key dimensions for a business model: infrastructure; offering; customers; and finance. Morris *et al.* (2005) propose a six-component framework for characterizing a business model, regardless of venture type, which comprehends: value creation; value target; internal source of advantage; firm market positioning; value capture; entrepreneur's time, scope and size ambitions. Ballon (2007) holds that the recurrent parameters a business model is built on can be brought back to the general concepts of value — value proposition and financial configuration — and control — inter-firm or value network relationships. For Johnson *et al.* (2008), a business model consists of four interlocking elements that, taken together, create and deliver value: customer value; profit formula; key resources; and key processes. Recently, Zott and Amit (2009) suggested two sets of parameters that systems designers need to consider: design elements — content, structure, and governance — that describe the architecture of an activity system; and design

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themes — novelty, lock-in, complementarities, and efficiency — that describe the sources of the activity system's value creation.

The literature review on business model design allowed us to individuate a literature gap concerning strategy creation and business model design in the relatively young mobile content market, and with reference to the mobile technology provider actor typology. A framework which identifies the key business model parameters, or 'building blocks,' for the actor typology under scrutiny, partly filling the existing gap, is found in Ghezzi (2009). According to this study, a mobile technology provider's business model is to be assessed considering the following three macro-dimensions, in turn divided into nine parameters.

Value proposition parameters: platform characteristics; offer positioning; platform provisioning; additional services; resources and competencies.

Value network parameters: vertical integration; customer ownership.

Financial configuration parameters: revenue model; cost model.

The abovementioned framework is later used as a reference model to analyze the initial and current business models developed by the company, so as to support a comparison of the two and to underline the changes occurring during the lapse of time considered.

The business model design literature is gaining growing interest within the strategic management research field. Nevertheless, though intuitive (Bloodgood, 2007), the explicit relationship between strategy and business model is currently under-investigated: recent attempts to propose the business model concept as an integrative framework for strategy formulation and execution (Richardson, 2008) — and to distinguish while at the same time relate the interdependent constructs of business model, strategy, tactics (Casadesus-Masanell and Ricart, 2009), innovation management, and theory (Teece, 2009) — are driving scholars to fill the existing literature gap, though the issue remains undoubtedly open.

Research methodology

The present research is based on case studies, defined by Yin (2003) as 'empirical inquiries that investigate a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.'

Qualitative research methodology was chosen as particularly suitable for reaching the research objectives, which aim at understanding the complex phenomenon of strategy and business model development within a given industry — that is, mobile content — characterized by a high level of dynamicity and competitive turbulence, and with reference to a specific typology of actor — a mobile technology provider — and thus building new theory — or extending existing theories — on it (McCutcheon and Meredith, 1993; Eisenhardt and Graebner, 2007).

To accomplish the previously identified research propositions, a single, in-depth longitudinal exploratory case study on an Italy-based mobile technology provider was performed. (The company name will not be disclosed throughout the paper. No proper names of informants have been mentioned either, to preserve their anonymity.) This company could be defined as an 'MTP,' as it presented both a well-defined line of business dedicated to the commercialization of content and service delivery platforms (CSDPs) or platform modules, and an offer directed to the mobile telecommunications market.

Coherent with the research methodology employed (Pettigrew, 1988), the firm constituting the theoretical sample was selected as it conformed to the main requirement of the study, where the process of interest was 'transparently observable.' Specifically, at the time the first set of interviews were collected, this company was an early entrant in the mobile content market, and was going through the process of designing a suitable business model.

A single case study methodology allows us to provide a thorough, extensive qualitative description and analysis of the strategic planning and business model definition

DOI: 10.1002/jsc

process with the needed depth and insight, hardly replicable when considering a wider theoretical sample. Furthermore, the longitudinal approach enables the establishment of a comparison between the company's conditions at different moments of its history, thus obtaining a valuable 'ongoing view' on how it developed with reference to the specific variables under scrutiny.

From May to June, 2006, 10 face-to-face semi-structured interviews were held with four persons identified as key participants in the firms' strategy definition and business model design at different levels. The population of informants included the following top and middle managers: Chief Executive Officer (CEO); Chief Information Officer (CIO); Marketing & Sales Manager (MSM); Product Managers (PM).

The semi-structured nature of the interviews made it possible to start from some key issues identified through the literature — such as the key strategic planning elements and the business model parameters highlighted by the existing body of knowledge — but also to let any innovative issue emerge from the open discussion.

The identification of core topics in the discussion of process flaws could be brought back to leveraged practices borrowed from 'grounded theory' methodology (Glaser and Strauss, 1967), which helps in developing new theories or fresh insights into old theories: after identifying the research 'core categories,' the related 'conceptual categories' were then isolated and described by means of applying the 'open coding' technique to the interview transcriptions.

In order to assess the strategic planning and business model configuration changes due to the initial process flaws, more than two years after the first contacts with the firm — from June to July, 2008 — a second wave of five further interviews were held with three key informants — this time, the Chief Executive Officer, the Chief Information Officer, and the Marketing and Sales Manager were involved. By maintaining the same research structure in terms of scheme of analysis and questions, the comparability of 2006 and 2008 results was assured. The only addition to the original scheme of analysis was related to questions concerning the strategic planning and business model variation over time. In 2008, the informants were asked to identify any perceived difference between the initial and the current strategy and business configuration.

This further set of interviews provided the study with the requested longitude, thus supporting a within-case analysis of changes in the firm's strategic dynamics and business architecture with reference to the temporal dimension.

The need to assess the whole strategic planning and business model design decision-making process, paying attention to different sub-units within the companies, led to the adoption of an 'embedded' case study, with multiple units of analysis, related to the set of 'decisions' to be made at a business model level.

As the validity and reliability of case studies rest heavily on the correctness of the information provided by the interviewees, and can be assured by using multiple sources or 'looking at data in multiple ways' (Eisenhardt, 1989; Yin, 2003), several sources of evidence or research methods were employed: interviews — to be considered the primary data source; analysis of internal documents — both official and informal; study of secondary sources on the firm — research reports, websites, newsletters, white papers, databases, international conference proceedings. This combination of sources allowed us to obtain 'data triangulation' or 'perceptual triangulation,' essential for assuring rigorous results in qualitative research (Bonoma, 1985).

Though the study was localized on a single and unique firm, thus lacking the generalization of results granted by multiple cases (Meredith, 1998), the width of the literature reviewed and the rigor of the methodology employed allow us to mitigate this limitation.

Strategic planning and business model design inside the analyzed firm

The initial configuration

The research took into consideration an Italian technology provider, just entering the new business area of mobile

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content. Founded in the early 1990s to operate as a software house for telecommunications systems, in 2006 the company's core business relied on the design and provision of customer care multichannel platforms (call centers, interactive voice response, and so on). At this time, the company — classifiable as a small to medium enterprise — had matured advanced skills in content management and channels integration. Moreover, in 2006 the management buy-out process started two years before was completed, making the company totally independent from the group it previously belonged to. For the top management, it was time to look for a business expansion, in order to create the conditions for higher growth and revenues. As the CEO stated:

> *Now the company structure is linear, and we find ourselves in an ideal situation for making strong strategic choices.*

Thanks to the past cooperation with operators belonging to the mobile industry, the company had the chance to come into contact with the mobile content segment, in which it perceived a high level of attractiveness and potential profitability, especially in the niche of video services. The main reasons for the subsequent choice to penetrate the mobile content market were disclosed by the initial declarations of the CEO:

> *We consider the business area as particularly attractive, because of its vicinity to our core, and of the prediction that incumbent players are about to invest heavily in infrastructure platforms to enable their value added services offer. The market is going to grow dramatically in the short term: and we want to be there when that happens.*

This point was later confirmed by the Marketing & Sales Manager:

> *Our solution portfolio could easily be enlarged to embrace innovative mobile video solutions mobile network operators are going to need to deliver their rich media services.*

When asked about the degree of formality the strategic planning process was subject to, and the tools adopted to support such a process, the CEO provided a vague answer:

> *We adopt a formalized planning process. We do have our staff doing the planning and analysis job.*

These words, however, were somewhat contradicted by the Marketing & Sales Manager:

> *We want to be strategically flexible, plans are only sketched: after all, the final word on the strategies to follow is obviously the CEO's . . .*

At a product development level, the new platform development represented an addition of functionalities to the existing solution, and did not constitute a major technological issue for the company's software engineers. According to the CIO:

> *After having developed the platform for fixed and IP network, for us, the mobile channel integration was a piece of cake. We had the technology, we had the know-how: it was just about applying it all to a new market.*

The idea of positioning the offer on the video segment held some criticalities that were quickly overcome thanks to the experience matured in similar project. This clearly emerged from the words of the Product Manager:

> *Making the platform capable of real-time assembly and delivery of video content was quite messy and made us sweat; but nothing we couldn't handle after all. We had done that before.*

The market value drivers the company wanted to leverage on appeared clear and recognizable to the management: video services and real-time content creation and adaptation were key to success. Therefore, the MTP was positioning itself to deliver innovative, high-quality

DOI: 10.1002/jsc

solutions, looking for product leadership in the promising video services niche.

Concerning the role the company desired to play within the mobile content value network, a clear statement by the CEO synthesized it:

> *We are essentially a technology provider, and we want to maintain our traditional focus.*

The 'pure technology provider' positioning was reinforced by further decisions concerning platform provisioning and complementary services: in-house installation of the CSDP within the mobile network operators' (MNOs') infrastructure was the only option made available; customers could also rely on the MTP for the delivery of technical services related to the platform's operation management — maintenance, upgrading, and so on.

With reference to the revenue model adopted, the company opted for a rigid platform selling to the customer, characterized by fixed revenues for the MTP. The possibility of establishing a 'revenue-sharing' model, where revenues coming from the selling of content and services published on the platform are shared between the MTP and its customer, was strongly criticized by the Marketing & Sales Manager:

> *We absolutely don't want to set up a dirty model where our revenues and our customers' revenues are somehow not clearly distinguished. Revenue sharing is not just way too risky an option for a technology provider: it's simply wrong. Our positioning must be fully transparent to our customers.*

The current configuration

When the firm was contacted again in 2008, the situation looked radically different from two years before. The company's future within the market was far from looking bright. Falling short of managers' expectations, the market had failed to keep its promise of high growth and consistent revenues. Instead, it had revealed its true nature: a context characterized by high levels of complexity, dynamicity, and scarce predictability of future trends.

According to the CEO, the current situation the company was going through was discouraging:

> *We predicted the market, especially the video segment, would grow dramatically. And when I say dramatically, I don't mean a 15%–20% growth per year: we expected a 50% growth rate. Well, till now, this just didn't happen. This is an area we've been investing in for three years [. . .], and what we found out now is that, objectively, the results we obtained are so poor they wouldn't justify holding the current position. [. . .] Maybe we made some mistakes in the first place.*

Moreover, the international reach of the company allowed us to verify that the criticalities were not dependent on some specific condition proper of the Italian context, but could be considered a generalized characteristic of the global market.

The market complexity and dynamicity are well depicted by the words spoken by the Marketing & Sales Manager, who spontaneously admitted the incapacity of predicting the mobile content's future scenarios — the manager even got to ask the researcher for some 'hints' to support an interpretation of the competitive environment, thus reinforcing the idea of the absence of a clear direction:

> *My idea of the current market trends is at the moment so confused that, personally, I don't deny that giving the company a clear indication on where to invest is really a tough call.*

When asked again concerning the supporting tools adopted for strategic planning, the Marketing & Sales Manager confirmed the lack of clarity:

> *We are evaluating the chance of adopting some sort of formalized tool; we may even turn to a Consultancy firm. We are starting to feel the need for keeping track of our strategic orientation.*

According to the interviewed managers, the causes for such change could be brought back to exogenous factors:

DOI: 10.1002/jsc

the scarce commitment of MNOs; the absence of a real 'killer application' for video services; and the uncertainty caused by the unclear norms regulating mobile premium services commercialization. As the Marketing & Sales Manager and the CEO pointed out:

> *The MNOs themselves don't seem committed, they don't want to bet on innovative video services. And, even worse, when we sit around a table to discuss any possible cooperation, they ask us what kind of services to develop to attract their own customer base. That's something they should know! This is not a good sign.*

Being the operators, the 'network focal' — that is, the central firm within the network, expected to drive the whole market's development — the absence of strategic initiative on their part determines a strong sense of disorientation, making the identification of the market's true value drivers extremely complex.

In order to cope with this unexpected situation, the company reacted by trying to reposition itself: in doing so, it departed from the initial configuration, and appeared to be adopting an approach based on greater openness and third-party involvement. The management started looking outside the company's boundaries, searching for greater dialogue and interaction with other actors in the value network. The CEO stated that:

> *At the moment, we are constantly talking to every actor in the market.*

As a whole, all the informants perceived the urgent need for reshaping the business configuration under the banner of flexibility, at all levels: from the value proposition to the activities covered, to the financial configuration adopted. Talking about the reorientation of the solution portfolio, the CIO commented:

> *We are going through a process of repositioning our platforms on more generalist content and services. We are also trying to figure out whether our video solutions may be reapplied to different contexts, like the Web.*

The shift from a rigid vision of the products was also testified by the new tendency for establishing joint projects with several different market players, so as to test, by 'trial and error,' the commercial feasibility of the initiatives without concentrating investments and the related risks.

Consistent changes also affected the revenue model. Quoting the Marketing & Sales Manager:

> *Our level of flexibility is getting higher and higher as time goes by, and we are willing to set up a wider range of revenue models, if it can win us customers. We are even evaluating revenue-sharing models, even if, I have to admit, I don't like them that much.*

The need to sustain the business even made the company depart from its initial negative stance towards revenue sharing, regarded as dangerous for its competitive implications: as will be discussed later, such radical change can be interpreted as a symptom of the lack of a clear strategy driving the firm's choices.

Concerning the role the company wished to play within the value market, the perceived environmental complexity led the management to strive for a more active positioning, potentially extending the original coverage of activities towards the downstream chain: this also led to participating in a call for tender to manage an operator mobile portal. The company was in desperate need of customers, and was ready to exploit every chance the environment was going to offer; even if this meant abandoning the 'pure' technology provider role.

In conclusion, the top managers declared their will to remain in, and keep investing in, the mobile content market: nevertheless, they somehow admitted that mobile content was never the strategic focus for the company. Taking the words of the CEO:

> *We moved in the mobile content market as a diversification maneuver of our past offer. Thank God, our main business unit is still focused on a different, consolidated market, generating 90% of our revenues. This allows us to treat the mobile content business area*

DOI: 10.1002/jsc

Table 1. A comparison between the original and the current business model configuration

	Business Model Parameter	Original BM (2006)	Current BM (2008)
Value Proposition	*Platform Characteristic*	End to end solution Scarce modularity	Higher platform modularity and interoperability
	Offer Positioning	Innovative video service coverage	More flexible, multi-purpose platform, open to generalist services
	Platform Provisioning	In-house installation Business separation	Shift towards a 'software as a service' (ASP) approach
	Additional Services	Technology management of the platform	Evaluation of content marketing & sales option
	Resources & Competencies	Technology-oriented r&c	Effort to develop content-oriented r&c ('editorial partnership')
Value Network	*Vertical Integration*	Low integration Platform activities focus	Search for higher integration of value adding activities
	Customer Ownership	Intermediated ownership Indirect revenue streams	Search for direct customer ownership
Financial Configuration	*Revenue Model*	System selling solution Spot, fixed revenues	More flexible revenue models, open to revenue sharing agreements
	Cost Model	Concentrated investments 'Product approach'	Joint investments 'Project approach'

as a start-up market, following the logic of resource allocation proper for business portfolio management.

His final statement was probably revealing:

I guess we underestimated the business's strategic complexity. And we're now paying the consequences.

The business was, and remained, a 'question mark,' and the company was trying to face turbulence and change through a profound reassessment of its initial configuration. In fact, this reassessment not only encompassed the business model adopted, it also dealt with the underlying strategic approach which guided the design of such a model in 2006.

The shift of approaches

As emerged from the second wave of interviews, in 2008 the decisions taken two years before were put under discussion, and to a great extent reconsidered. At a business model design level, the partial realization of the mistakes made led to a heavy reconfiguration of many parameters from the original to the current model. The changes are synthesized in **Table 1**: the comparison, meant to underline the shift in parameters, is based on the building blocks proposed by Ghezzi (2009).

At a strategic planning level, the managers realized the need to introduce some sort of formalization in the strategy definition process, leveraging on traditional tools of analysis: still a lack of an overall vision remained, as the problems emerging were shown to have deep roots in the company's approach to strategy itself.

Ten mistakes to avoid at a strategic planning and business model design level

Throughout the two waves of interviews with different managers, the main emerging theme or recurring issue

DOI: 10.1002/jsc

was the search for the most suitable strategic and business architecture for competing in the newly entered market, and, therefore, strategic planning and business model design were found to be the 'core categories' (Glaser and Strauss, 1967) of the research. Through applying the 'open coding' method proposed by the grounded theory approach, the main 'conceptual categories' related to the core categories were labeled and identified. Such categories corresponded to the core criticalities emerging in the process.

As anticipated, some flaws in the process were spotted early by the management itself, which then tried to either correct the mistakes or constrain their impact on the company's performance, while others, inferred by the literature review carried out, still burden the existing strategic and business model configuration.

The major mistakes committed in the process are inductively extrapolated from the case and filtered through the literature review, to be presented below as a list of 10 pieces of 'anti-advice' entrepreneurs involved in strategic planning and business model design should *not* follow.

Mistake 1 — Stating the strategic objectives unclearly, and failing to translate corporate-level priorities into business-level goals

The objective-setting stage is widely recognized as the activating strategic planning step. Any mistake committed at this initial stage has a cascade effect on the overall process. Also, given the three-layered subdivision of planning and the relationships between layers, a key activity for strategists lies in the translation of higher-level, holistic priorities into lower-level, specific goals.

In the case presented, neither of the two recommendations was followed correctly. As can be inferred by deeply analyzing the interviews and the additional sources available, in 2006, after the management buy-out, the company found itself in the condition of looking for new revenues to sustain its growth. Almost accidentally getting in contact with players belonging to the mobile industry, the company sought to take advantage of a contingent opportunity, and prepared to enter the new market. While the corporate priority was hence clear, the business selection choice was almost randomly taken. Following the corporate strategy input, the management chose to 'rush into' the neighboring business area where, apparently, it could easily pursue correlated diversification: no further justification — in terms of market attractiveness, business portfolio efficiency, and so on — was provided.

Moreover, insufficient effort was put into setting the business goals and developing a dedicated strategy, which — as demonstrated later — proved to lack an adequate balance. The CEO's final statement concerning the relevance of the traditional business in comparison with the start-up market almost appears to be an admission that mobile content was never a strategic priority for the company, and was probably left behind in terms of resource allocation.

In addition to this, the CEO's initial expectations in terms of market growth were unrealistic, especially when paired to the relatively limited effort put into the new endeavor: such discrepancy — which led, initially, to misguide the company towards an insidious business area, and later, to an exaggerated perception of failure — should have been closed before planning was translated into action, by means of several moves, like a lowering of the top management's expectations through improved information, a business-level adoption of a more aggressive business plan, or a corporate-level rebalance of resources allocation.

Mistake 2 — Misinterpreting the deliberate vs. emergent strategic planning dualism

As the literature review showed, the academic debate concerning the degree of formality a strategic planning process should be subject to has not provided an unquestionable and flawless answer.

Empirical evidence present in existing studies suggests superior performance related to formal planning — especially in dynamic industries where large changes take place — though successful cases of informal planning are

DOI: 10.1002/jsc

present. What descends from this apparently unsolved issue is the lesson that strategy definition is case-sensitive: both approaches are plausible, if consistently applied, and management shall select the one that it believes best fits its managerial attitude and its organizational structure and culture.

Strategy is not constrained to deliberateness; still, what should be clear and deliberate is management's decision on whether to formalize it or not, and to what extent.

On the contrary, the case study demonstrates that top management inconstantly passed from a rationalist to a behavioral or evolutionary approach almost out of the blue, without taking a clear stance — as testified by the contrasting statements of the CEO and the Marketing & Sales Manager: such absence, passed off as 'strategic flexibility,' reveals instead a deep misinterpretation of the deliberate vs. emergent planning dialectic and contributed in confounding managers and staff members about the role of strategic planning, which in the end was shrunken and overlooked in its key steps. In turn, this resulted in a generalized sense of strategic disorientation and uncertainty.

Mistake 3 — Unbalancing the internal and external strategy analysis

The assessment of business-specific opportunities and threats, as well as of company-specific strengths and weaknesses, is critical. Balancing the external and internal dimensions is also essential: strategy analysis shall focus on issues concerning the business's environment, not merely inward on the problems of business-as-usual. Pitfalls in such a step may represent a serious obstacle to realistic planning, especially for companies competing in rapidly changing environments.

The use of planning tools like the SWOT model can support this process, which shall be rigorous, not just vaguely sketched (Houben *et al.*, 1999). Nevertheless, the company failed to achieve a correct balance between external and internal focus. In particular, opportunity and threat identification was mostly replaced by a sort of 'word of mouth' coming from business customers: on the basis of such information and data — which, from an *ex post* analysis, can be labeled as fragmentary and incomplete — lacking the necessary insight, a sloppy external strategy analysis was performed, which brought the top management to conclude the market was attractive and extremely profitable. A detailed external analysis would have allowed them to identify the market peculiarities, as well as the threats resident in the video segment, and develop a business strategy accordingly.

A deeper focus was put on carrying out an internal strategy analysis, aimed at identifying how the company could be adapted to fit the new business: since, apparently, the products could easily be adjusted to respond to the apparent mobile players' needs, the top management was confident that the company could rapidly take the role of MTP, substantially replicating the model adopted in the traditional business.

As the managers were to figure out, the 'lame strategy' resulting from this excessive 'inward focus' and lack of adequate external analysis was not suitable for driving the competition in the newly entered market. To get back on track, they had to develop a configuration characterized by a stronger tie binding a 'two-footed strategy' — a strategy founded on both external and internal analysis — and the business model, striving to find the right alignment between internal and external focus.

Mistake 4 — Leaving the value system configuration unmapped

Another major external strategy analysis issue not to overlook concerns the understanding of the value system configuration, in terms of players' role and the allocation of value-creating activities, since the recognition of these elements can guide a company's strategic positioning and partnering choices.

As is commonly recognized by several authors (Wirtz, 2001; Li and Whalley, 2002; Peppard and Rylander, 2006; Funk, 2009), the mobile industry is going through a period of deep value system reconfiguration, which has

DOI: 10.1002/jsc

recombined its flow of activities in the shape of a value network. Therefore, structural network characteristics — focal or peripheral roles; critical network influences; structural equivalences; structural holes; revenue streams — as well as dynamic effects — lock-in and lock-out; learning races (Gulati *et al.*, 2000) — have to be assessed when selecting the desired competitive position.

A value network analysis applied to the mobile content market would have revealed a complex landscape, where the MNOs still hold a central position thanks to their key assets — network infrastructure, licenses, charging and billing systems, and customer ownership due to the control of the users' SIM cards (Kuo and Yu, 2006) — but a wide set of third parties is rising around them, most of which are more involved in the mobile content niche (a true strategic priority they are willing to invest in innovation for) than the operators themselves. Technology providers, for their part, have a hard time trying to reap a high share of revenues, unless their platform becomes core to their business partners' offer, or lock-in effects are in place.

In 2006, the top management did not have much of a clue about such market conditions, and had not mapped how value-creating activities were covered by incumbent players. Following the assumption that partnership with operators was the one and only key to establishing a foothold in the market, managers misplaced their offer and disregarded service providers as prospects, thus missing a clear strategic opportunity. When asked if they already thought about marketing their products to actors different from the MNOs, the managers were surprised, as if this was something that had never entered their minds. A better understanding of the actors' roles within the value network would have driven their offer where it was most desired.

Mistake 5 — Underestimating the impact of exogenous factors, like market turbulence

In one of his latest pieces of work, Michael Porter (2008) clarified that exogenous factors are not to be confused with the five competitive forces driving a market's attractiveness up or down; nevertheless, they shall not be overlooked as they can impact on the market's structure in the medium to long term. This idea is consistent with the work of several authors stressing the impact of extra-firm dimensions on profitability and suggesting the need to match strategic behavior with the levels of environmental turbulence and unpredictability.

The case presented here is a vivid example of how failing to address exogenous factors can lead to taking a wrong perspective on the strategic planning and business modeling design process, with heavy repercussions on the planning and design outputs. The mobile industry is characterized by high dynamicity, as testified by: the growing convergence with the Web and media industries; the rising of new market segments and related services; and the subsequent value system reconfiguration. Still, what emerges from the longitudinal case study is that the company initially had rather a hindsight orientation (Veliyath, 1992), based on the incautious assumption that a reasonable continuity and stability in the external environment's evolutionary paths existed. This wrong assumption also contributed to convince the management that external analysis could largely be disregarded, as previously shown, and led to the selection of a risky market niche characterized by unpredictable and highly volatile trends.

This pitfall also had an 'amplification effect' on the other mistakes committed: the lame strategic and business configuration put into practice by the management stumbled when shaken by the market's wind of change. Had the company developed a well-balanced strategy which correctly addressed both exogenous and endogenous factors before entering the new market, the impact of the fast-changing environment on the initial approach would have been less dramatic, and would not have determined such radical changes.

Yet, we must underline that the major flaw related to endogenous factor assessment lay in failing to *identify* that change was likely to occur, not in the incapacity to *predict*

DOI: 10.1002/jsc

its effects: perfect forecasting is just a fancy, but learning to expect change as a probable element to face in a business endeavor puts the strategic thinker in the right position to understand it, anticipate it, tackle and constrain it, or, should this last option prove infeasible, strive to interiorize it.

Mistake 6 — Failing to assess the endowment of internal resources and link them to critical success factors

The identification and assessment of internal resources and competencies is a milestone of internal strategy analysis and financial analysis as well, as it pinpoints the assets a company relies on to create a solid and sustainable competitive advantage, and it drives the choices on capital arbitrage that should be consistent with, and supportive of, the overarching strategy shaped to achieve such advantage. As strategic planning practices have taught us, crossing the core assets portfolio with a business's critical success factors helps in determining whether the company owns the right endowment to obtain above-average returns, or which gaps it should fill to avoid competitive misfortunes. Yet, contradicting the guidelines dictated by the literature (Boynton and Zmud, 1988), CSF were never rigorously collected.

The top management took for granted that what it needed to design and deliver the right product was only technology resources and competencies. Yet, since the mobile telecommunications market is rapidly converging with the media and Web industries, they had to develop content creation capabilities as well: but the company did not realize this shortage. The Marketing & Sales Manager was negatively struck by the passive attitude of MNOs concerning value added service (VAS) projects. His concerns regarding the low expectations for a market where the leaders were foot-dragging are somewhat motivated: nonetheless, had the management devoted enough time to analyze the market structure and innovation dynamics, it would have found that market innovation mostly came from outside the operators' boundaries, springing from peripheral third parties, such as mobile content and service providers. MNOs were somewhat used to 'expect everything on a plate,' greedily seeking for a partner that could provide an easily implementable solution for the problem 'how to make money from VAS.' Instead of blaming the market leader for scarce vision, the MTP had to become capable of addressing that issue, developing or acquiring marketing capabilities to craft a whole service around the products offered.

On the financial side, by analyzing the company's financial statements from the year 2000 to the year 2008, several intriguing lessons can be drawn concerning the improper balance of internal and external financial resources, and its determinants.

In its early years, from 2002 to 2006, the company had always maintained a debt/equity ratio oscillating around 1: then, from 2006 to 2008, the management issued new debt and decreased the capital stock by 28.9%. This move led to a very high debt/equity ratio — which passed from 0.91 in 2006 to 3.81 in 2007, and reached the significant value of 5.15 in 2008. However, contrary to the findings of the reviewed literature on financial arbitrage, which claimed that adjustments to capital structure had to occur in response to changing conditions and targets (for instance, see Hovakimian *et al.*, 2004; Dudley, 2006; O'Brien *et al.*, 2007; Byoun, 2008), in the analyzed case there was no apparent reason, either internal (e.g., changes in the investments portfolio) or external (e.g., radical changes in the financial market conditions) for choosing to increase debt while decreasing equity.

The analysis of debt composition provides further insight on the issue.

Before 2008, the company had never borrowed long-term debt: it had not relied on structural debt to finance its investments, as its operations could be managed with a mixture of equity and short-term bank debt — which, by 2005, grew year by year at an average 20% rate. However, in 2008 the management was forced to borrow new capital resources on a long-term basis: since from the balance sheet and the financial statements on the one

DOI: 10.1002/jsc

hand, and from the direct interviews with the managers on the other, there is no apparent justification for this decision, this allows us to argue that such long-term debt was borrowed to cover short-term costs. This led to an incorrect matching between assets, period costs, and the financial capital that financed their acquisition or sustainment: long-term capital was used to finance a short-term cash disequilibrium, resulting in an inconsistent matching between resources and assets (Byoun, 2008).

In addition to this, in 2008 the company substantially reduced its short-term bank loans by 30% — in an attempt to diminish its debt exposure. Nevertheless, it contemporaneously increased its trade debt by the same absolute value. By doing so, it essentially manipulated its operating working capital in an attempt to unload on to its suppliers a cash shortage determined by the pressure of debt interests.

Such maneuvers have interesting implications, and tell much about the approach to capital arbitrage shown by the top management. First, these actions are not problem-solvers, as they only delay cash liquidity issues without providing a long-term solution. Moreover, they demonstrated that almost all the financial actions put into practice by the top management are of an accounting rather than of a structural nature, relying either on accounting technicalities or on the mere shift of balancing items; in this case, financial flexibility was confused with a certain level of accounting creativity (Gamba, 2008).

In contrast with the body of knowledge on the subject matter (e.g., see Flannery and Rangan, 2006), capital structure choices were not the result of a proper planning of financial balance, target leverage level, asset–capital matching, and different debt-type selection. Poor effort was put into the selection of an explicit target concerning the degree of leverage between funds and liabilities, and opportunities coming from heterogeneous types of debt (Gaud *et al.*, 2007; Rauh and Sufy, 2008) were largely disregarded, as all debt was ultimately simple bank debt. The lack of an underlying *rationale* guiding the adequate planning of capital sources arbitrage gave the company a short-period orientation, which in turn determined a number of mistakes committed and, potentially, the loss of opportunities to achieve a competitive advantage originating from the financial management.

To a great extent, such mistakes derived from the traits characterizing the company's top management: consistently with the strand of the financial literature dealing with the firm-specific managerial determinants of capital arbitrage choices (Hofstede, 1980; Gleason *et al.*, 2000; Bertrand and Schoar, 2003; De Jong *et al.*, 2008; Hackbarth, 2008), it is possible to argue that in the present case study the endowment of internal resources and competencies heavily affected capital arbitrage decisions and financial choices. As the interviews and the research on the industry allowed us to infer, the management team of information and communication technology providers often possesses strong technological and commercial resources and competencies, while its financial competencies are quite weak. Managers care more about developing their technology and commercial competencies than nurturing their financial skills — this argument is testified to by the fact that the company under scrutiny had never involved on its board any manager or consultant with strong financial expertise: this 'competence bias' and its resulting mistakes in capital structure choices is a further empirical confirmation of the claim that managerial behavior, beliefs, and background affect the financial arbitrage process.

As a whole, the resulting financial structure of the company is quite unstable. Probably, in the medium term, this may be detrimental to the firm value by dramatically increasing the debt interest to be paid and the debt covenants the company is subject to; this condition may also determine that the firm's relationships with its business customers will be gradually disrupted by concerns over the firm's long-term viability (Parsons and Titman, 2007), such prediction being especially likely to occur given that business customers of ICT equipment are seldom involved in 'one-shot' purchases, but are willing to set up continuative service provisioning relationships with trustworthy and financially solid vendors.

DOI: 10.1002/jsc

Mistake 7 — Missing the link between strategic planning, strategy analysis, and business model

Decisions concerning the approach to adopt at a strategic planning level have tremendous impacts on the undercurrent business model level; though the relationship between business model and overarching strategy is still a non-formalized and under-developed issue, many studies suggest the importance of matching the business model design process to the current internal and external conditions the firm is facing (Bloodgood, 2007), thus creating and maintaining strategic fit.

The company rather seemed to adopt a piecemeal approach, which developed strategy and business model like standalone pieces with few theoretical and almost no operational connections: that was probably the easiest and most effort-saving way to drive the market entry, but in the end did not pay off. In two years' time, the business model had to be reinvented and the origins of such changes cannot be brought back only to exogenous factors, but also to the endogenous strategic approach that drove the initial business model design process. As the managers figured out, the 'lame strategy' resulting from this excessive 'inward focus' and the lack of adequate external analysis was not suitable for driving the competition in the newly entered market; moreover, it provided weak guidelines to shape the right business.

Mistake 8 — Adopting a full technology-driven approach

Companies must place greater emphasis on customer orientation when planning strategy and designing business models (Bonn and Christodoulou, 1996), to avoid the risk of misaligning delivered and expected performance. This is achieved through balancing a 'market-driven' with a 'technology-driven' approach, the former being concerned with crafting an offer explicitly addressing the customer's needs, with the latter taking into account the internal technology and product portfolio characteristics to leverage on.

Instead, the interviews allow us to infer that the firm analyzed was essentially bringing to a new market the slightly modified version of its traditional products portfolio, thus proving to follow a full 'technology-driven' approach (which implies the search for applying an already available technology to a newly entered business, not for the answer to real customers' needs) which, in the initial strategy development process, was never actually assessed.

Mistake 9 — Leaving the business value proposition unstated

A clear value proposition statement — that is, a declaration of how the company desires to create value for its customers as well as how to capture and internalize a share of that value — is truly the essence of a business model. This business model development step is comparable to that of objective setting at a strategic planning level, as it ultimately drives the design choices as a whole.

However, the dominant inward-looking and technology-driven approach adopted by the firm caused this fundamental step to be largely neglected: the management neither had a clear picture of its products' functionalities the customers were willing to pay for, nor knew exactly how to extract value from its offer, as the varying propositions related to setting up the revenue model testified.

Mistake 10 — Shaping the business modeling mix inconsistently

A business model's consistency is to be judged at two complementary levels: an external fit relating the business configuration with the overarching strategy that originated it; and an internal fit existing between the interlocking business model dimensions. The overall consistency in what we can label the 'business model mix' (that is, the key parameters combination) determines a solid basis for competing and deploying tactical choices.

The longitudinal study on the business model adopted by the company from 2006 to 2008 showed significant changes occurring in the values assumed by business model parameters. After becoming aware of its initial mistakes, the management looked for a repositioning of its offer, which ineluctably had to pass through the reshaping of the initial

DOI: 10.1002/jsc

business model. However, these changes were scarcely systematic and poorly orchestrated, reflecting the absence of a clear strategic intent. Navigating by sight in the business waters, the company tried to appear adaptive and respond to the market's stimuli; however, having no clear goal but the desperate search for customer and short-term profits to justify its investments, it ended up being carried away by the void of heterogeneous opportunities — for instance, the mobile portal call for tenders — it could hardly face. This resulted in an awkward business model, poorly mixing an innovative but ill-motivated adaptive stance with a hardcore technological legacy.

Conclusions

Strategic planning and business model design are complex, multifaceted processes every company has to deal with sooner or later, like it or not. Much has been said on how to face them, while relatively little effort has been put into discussing what getting them wrong means, and what mistakes at this stage bring about.

The present study aims to propose a failure analysis perspective on the study of strategic matters. Though this perspective is substantially dual with respect to the traditional one, and should therefore lead to similar results, we believe an integrative view that looks at the subject in a different light, disclosing both conceptual and operational mistakes one can make in the quest for business success, can be of great use for entrepreneurs.

The study can provide cross contributions to the strategic management field.

The deliberate vs. emergent planning debate is resumed, arguing that while both approaches make sense, what matters the most is to explicitly define which of the two best suits the entrepreneurial team's vocation, and should therefore be adopted.

The essentiality of achieving and maintaining the right balance between external and internal strategy analysis, expressed by the 'inward look' and the 'outward look' concepts, is also confirmed. The relationship between strategic planning and financial arbitrage is restated, and the negative impact of wrong managerial choices concerning capital structure planning is uncovered. Furthermore, the importance of environmental scanning to identify exogenous factors, rather than to predict their outcome, is strongly reinforced, and the idea that a convulsive and uncertain environment can have an 'amplification effect' with regard to any planning deficiency is demonstrated.

In addition to this, the longitudinal case study restates a certain value of the 'learning by doing' approach (Cope and Watts, 2000; Christensen, 2001), where critical incidents like unsuccessful events result in fundamental learning experiences that lead to changes and improvements in strategy and business models; nonetheless, it claims that the lack of a clear strategic intent can make apparent learning become misguiding.

The case also constitutes a vivid example of how strategic planning and financial arbitrage lessons proposed in the existing literature have not come down the 'ivory tower,' and are still far from being interiorized and implemented by many small to medium enterprises. Though preached by academics in the first place, and later by consultants, some practices — SWOT analysis, CSF assessment, and so on — failed to penetrate the SME boundaries and be established in an ongoing manner (O'Regan and Ghobadian, 2007).

Finally, the paper represents qualitative empirical evidence on the close mutual relationship between the strategy and business model concepts and descending constructs. Business models are intimately related to strategy, as the latter determines the former's adequacy and performance. Nevertheless, though representing an interesting real case where mistakes at a strategy definition level reflected upon and determined further errors at a business model design level, the study only suggests and touches upon the matter of the formal and explicit identification of the two levels' boundaries and existing interdependencies. Given its importance for the development of strategic management as a body of knowledge and a practice, such issue deserves future research effort.

DOI: 10.1002/jsc

Many of these issues have to some extent been treated in previous works, quite often as standalone topics. Still, this paper's novelty lies in its attempt to systematically bring together and unify strategy and business model conceptual and operational constructs within the same normative framework, through the analysis of a surprisingly meaningful case study of planning failure.

The intriguing side of the 'flaws checklist' presented is that, together with its academic significance, it has a straightforward value for managers. This practitioners-oriented agenda with strong literature foundations can serve as an anti-advice manual for entrepreneurs wishing to avoid common strategic pitfalls. For, as Gray (1999) argues in his book concerning military strategy in the modern age, such strategic mistakes can have dreadful consequences: 'Poor strategy is expensive, bad strategy can be lethal, while when the stakes include survival, very bad strategy is almost always fatal.'

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